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The Uruguay Round Agreement on Agriculture: Will It Immiserize the Filipino Farmer?

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ABSTRACT. The paper argues that requiring General Agreement on Tariff and Trade (GATT) member–countries to remove agricultural quantitative import restrictions is not as disadvantageous to Filipino farmers as critics of the Uruguay Round Agreement on Agriculture suggest. It refutes claims to the contrary, showing how the agricultural provisions of the new GATT treaty will benefit Filipino farmers, and arguing that these provisions seek to shift market shares in agricultural trade towards small countries like the Philippines. It points out, for example, that the much-maligned ban on government agricultural subsidies is actually favorable to countries that cannot afford to provide such subsidies to its farmers, such as the Philippines. It claims that the lowering of tariff barriers on agricultural products in the developed world will open hitherto inaccessible markets to developing countries that heavily export agricultural produce. For the Philippines, these new market access opportunities will translate to a large increase in profits from agricultural exports, if the country retains its current share in the world market. The paper allays fears that developed countries will gain significantly from the treaty while the inverse will happen to developing countries by discussing the treaty's measures against unfair trade and import surges. For this purpose, it also makes mention of the measures in the treaty designed to enhance the global competitiveness of its signatory countries. The paper concludes by saying that a rejection of the treaty entails a rejection of the aforesaid benefits, which would imperil Philippine agricultural production. A decline in income from agricultural exports because of the country's withdrawal from world trade will lead to the impoverishment of Filipino farmers, and consequently of Filipinos throughout the country.

KEYWORDS. GATT member countries · agricultural import restrictions · Uruguay Round Agreement · global competitiveness · Philippines

INTRODUCTION

A very appealing argument against the ratification of the new GATT treaty[1] in the Philippines is that it allegedly erodes the livelihood of small farmers and therefore increases the incidence of rural poverty in the country. This view stems from one aspect of the treaty which requires agricultural quantitative import restrictions (QRs) to be removed by all GATT member countries. These QRs have been the primary form of trade protection which Philippine agricultural producers received from the government. Lowering these trade barriers now, when Philippine agriculture is "not ready" for world competition, will economically dislocate the millions of small farm households in the country dependent primarily upon the domestic agricultural markets for their livelihood.

This paper argues that the dislocation costs attendant to the lifting of the agricultural QRs are perceptively over-estimated by GATT treaty opponents. This perception of loss has not benefited from the information that there are built-in mechanisms to protect producer interests during the implementation period, nor has it been validated by any rigorous analysis of the data. This core argument against the GATT treaty has prevented opponents from understanding the proper context of the entire agricultural provision of the treaty which, if done, would have made them appreciate how well this treaty is consistent with the country's agenda for reforms in the agricultural trading system in the world.

This paper argues that the agricultural provisions of the new GATT treaty would be beneficial to the Filipino farmers for four reasons.

Firstly, the GATT agreement on agriculture initiates the world-wide process of putting agriculture within the discipline and rules of the GATT. The end of it is to shift market shares in agriculture trade towards non-subsidizing agricultural exporting countries, including the Philippines. Secondly, although the country has to liberalize the importation of farm products under this agreement, built-in adjustment assistance mechanisms as well as measures against unfair trade and import surge are provided for in the treaty in order to minimize dislocation costs in agriculture. Thus, there is no basis for the allegation that the country will be inundated with cheap food imports robbing the Filipino agricultural producers of their share in the domestic market. Thirdly, tariff barriers on agricultural products will be lowered in the developed world creating new market access opportunities for existing and emerging agricultural exports of the country. Lastly, competitive enhancing measures, such as infrastructure services, will continue to be allowed under the GATT agreement which if implemented by the Philippines will enable the country's farmers to maximize the benefits they can obtain under the GATT treaty.

LEVELLING THE PLAYING FIELD

Launched in 1986, the GATT Uruguay Round trade negotiation offered the Philippines and other non-subsidizing agricultural net exporters the opportunity to push the common agenda to put world agricultural trade under GATT rules and discipline. These countries consist of medium-size developed countries like Canada and Australia and developing countries. Although agriculture comprises the bulk of economic activity in developing countries, which account for over three quarters of the GATT membership, they are a heterogeneous group, consisting of new industrializing, net agricultural exporting, and net agricultural importing countries. There are then no basis for the grand coalition of developing countries vis-à-vis developed countries. In agriculture, they were equally split on the issue of whether the removal of subsidies in the developed world which promises to push up world prices of food products would be beneficial to them as a whole. Net food importing countries like those in Africa are perceived to be losers in the event food subsidies in the developed world are phased out, while net agricultural exporting countries, including the Philippines, clearly stand to gain.

While demands for discipline in world farm trade came from both the major agriculturally subsidizing regions, such as the United States and the European Union, due to the mounting budgetary cost for their respective agricultural programs, there was also reluctance on both sides of the Atlantic to negotiate the reforms bilaterally or multilaterally in order to diminish dislocation costs on their farming sectors. The multilateral route was also bolstered because of the Cairns Group of countries, consisting of non-subsidizing agricultural exporting countries, which had strived to prevent an orderly market sharing arrangement by the United States and the European Union of the world's farm trade.

The long road to Uruguay can be traced back to the 1950s, when having come out from the food shortages during the second world war, the developed countries saw the need to ensure food self-sufficiency within their borders.[2] Agricultural trade protection in these countries, supported by GATT waivers allowing them to introduce quantitative import restrictions, preceded the domestic production subsidies. In the 1960s, production subsidies reinforced the food self-sufficiency programs in the developed world. Food production in these countries increased substantially as a result of the combined policies of trade protection and domestic subsidies.

These protection and support policies continued in the 1970s, and according to an account, the food crisis in the developed world metamorphosed into a trade crisis as food surpluses built up in these countries. The drive to sell these surpluses into the world market, in turn, yielded export subsidy programs in the 1980s.

The impact of these farm support and protection policies in the developed world on the net agricultural exporting developing countries, including the Philippines, can be gleaned from the erosion of world competitiveness of their agricultural products. While these products were still competitive, they had been barred from entry into the markets of the developed world because of the agricultural quantity import restrictions. Thus, farm exports of the developing countries started to decline. The next blow came when farm production increased in developed countries reducing their food import requirements. This started the secular decline of world prices of major agricultural products which continues to the 1990s. The declining trend in world farm prices has been reinforced by the export subsidies of the developed countries. It also encouraged the disposition of food surpluses at subsidized prices in the world market.

With world farm prices sliding down, competitiveness of farm products, particularly, from non-subsidizing developing countries like the Philippines progressively deteriorated. The costs of local production are compared with increasingly lower world prices. Moreover, the losses in market shares in world farm trade for these countries have had their roll on the productivity of their agricultural producers. While farm yields have been rising in the developed world, those in the developing world were at best stagnant.

The Philippines participated in the Uruguay Round negotiations, hopeful of the potential gains, but apprehensive of what it might have to give up in exchange for securing its agenda in pushing for reforms in developed countries' agricultural policies. A small country, the Philippines realizes that unilateral productivity increasing programs can only accomplish so much, and without the agricultural policy reforms in the developed countries, the productivity gains from these programs cannot be sustained. Increasingly the trade conflicts emanating from farm subsidies of the world are reflected by the encroachment of imported farm products such as sugar into the domestic market. Without phasing down the farm subsidies of the developed countries, such conflicts will progressively grow in the future.

The policy response of the government to the widespread distortion of world farm trade has been to secure the domestic market to local farmers through agricultural quantitative import restrictions. This, in turn, has created internal friction between free traders and trade protectionists since the prices of local produced food products are made artificially higher because of trade protection.

Clearly the internal resolution of these policy conflict is dependent upon the reforms in farm policies of the developed countries. Thus, the Uruguay Round negotiation, by including agriculture in its agenda, is an opportunity for the country to participate in the multilateral effort to seek a solution to world farm trade problems. As expected, the agricultural negotiation proved to be difficult, and at one point in time, threatened the demise of the entire Uruguay Round negotiation—not to mention, the further erosion of the credibility of the GATT as designer and enforcer of trading rules in the world.

Participation in the agricultural negotiations in the Uruguay Round is consistent with the country's national interest. A net agricultural exporter, the Philippines is concerned about the unfair trade in agriculture due to the production and export subsidies maintained by developed countries for their agricultural sector, as well as the continuing efforts made by our trading partners to shut out or reduce Philippine agricultural exports in these markets. Departures from GATT rules and discipline in agriculture primarily by the developed countries has only reduced agricultural export earnings of developing countries and distorted world farm prices, undermining the competitiveness of existing and potential Philippine agricultural exports. If such departures are clipped and phased out, the benefits accruing to the country's agricultural sectors will more than offset the short run dislocation costs of the implementation of its own trade liberalization concessions under the GATT.

Reduction of Subsidies

One key criticism of the agricultural trading system in the world is its bias against those which are unable to provide domestic production subsidies because of leak of budgetary resources. The pattern of agricultural trade is therefore distorted in favor of richer countries which succeed to provide production incentives to their respective agricultural producers with subsidies. World prices of farm products are low as the surpluses in the subsidizing countries are sold in the world market. In contrast, poorer developing countries and medium-size developed countries, such as Australia and New Zealand, all of which appear to have the natural resource advantage are unable to compete in world farm markets because of such subsidies.

Domestic support

The agreement provides a mechanism whereby such unfair subsidies are phased out. Unfair subsidies are those which are provided to agricultural producers in the form of output or input price supports or income transfers that are linked to production performance. The modality whereby such GATT—inconsistent support measures will be reduced is through the reduction of the aggregate measure of support (AMS) which is the monetary value of such subsidies given to the agricultural producers of a given commodity as a percent of the farmgate value of their production of such commodity.

Based on the agreement, the AMS will be reduced by 20 percent over six years by developed countries and 13 percent over ten years by developing countries. Countries which maintain an AMS below a threshold value are exempted from the mandatory cuts in GATT inconsistent production support measures. Called the *de minimis* provision, developed countries are exempted if their AMS is no more than five percent of production value. The threshold value for developing is ten percent.

Export subsidies

In export subsidies, the agreement requires reductions in both the scope of exports presently covered by subsidies as well as in total budgetary outlays. Under the former, export subsidies are to be reduced by developed countries by 21 percent over six years while developing countries are required to cut the same by 14 percent over ten years. Under the latter, budgetary outlays for export subsidies will be reduced by developed countries by 36 percent over six years and by 24 percent over ten years for developing countries.

Retention of Subsidies in Developed Countries

Because of the nature of the AMS-based reform process, it is possible that GATT-inconsistent production subsidies can be retained by a GATT member country provided of course it complies with the agreed upon cuts in AMS on various farm products.[3] It is also noted that the

GATT inconsistent domestic support and export subsidies are not completely eliminated. In addition, direct payments to producers classified unofficially as the 'blue box' support measures are also allowed.

To the extent that the remaining GATT-inconsistent support measures injure domestic producers, measures against unfair trade may be invoked by the country. In cases where foreign products are dumped into the country causing injury to the domestic industry, the dumping effort can be offset by the contracting party importing the dumped product with an additional duty called the anti-dumping duty. Where farm efforts entering the country have been subsidized by trading partners, again causing injury to the domestic industry, these may be offset with a countervailing duty.

With respect to the "blue-box" measures, one should note that these support measures are by the provisions of the Agreement decoupled from production. Thus, these are plain and simple direct income transfers to agricultural producers, which unlike their present counterparts would have been neutralized of their production incentive effect. The computation of these direct payments would now have to be based on fixed farm yields, leaving the producers no incentive to increase their yields in order to maximize their deficiency payments.

World Farm Prices Expected to Rise

Despite the limitation of the outcome of the negotiations, i.e. partial cuts in GATT-inconsistent subsidies and the "blue-box" measures, majority of the existing projects of world farm prices indicate that these prices will be rising up to about 20 percent higher than the baseline scenario.[4] The impact therefore of the cuts in subsidies on prices is substantial. With higher world prices, global competitiveness of Philippine agricultural products is expected to improve. As a result, these products can potentially gain larger market shares in more markets.

Market Access Commitments

To promote transparency in agricultural trade, GATT member countries have agreed not to further expand the use of non-tariff measures such as quantitative import restrictions (QRs) and to tariffy existing QRs on farm products. Two other complementary agreements include the binding of agricultural import tariffs and harmonization of sanitary and phyto-sanitary regulations among GATT member countries based on internationally accepted procedures. Under the GATT 1947, contracting parties are prohibited from using non-tariff measures and encouraged to use customs duties instead in their efforts to promote their respective local industries. Although this particular provisions has not been implemented since the 1950s, it has remained to be an important feature in the GATT. Thus, under the agreement, contracting parties now require to implement this old regulation in agriculture.[5]

While the coverage of the agreement not to expand the use and to tariffy all existing non-tariff measures in agriculture, special treatment is provided whereby contracting parties can postpone for at most the length of the implementation period from six to ten years their compliance of this part of the agreement. Provided particularly for countries facing extreme political difficulties with respect to sensitive agricultural products, this however requires the granting of minimum access of one percent of consumption and the implementation of effective production restraining measures, both of which are aimed at discouraging contracting parties from invoking it and/or from prolonging the period, whereby they postpone the tariffication of their existing QRs.

In addition to prohibiting the use of non-tariff measures in agriculture, contracting parties have agreed to bind all their respective agricultural tariff measures. A tariff binding is a legal commitment in the GATT whereby the government promises not to raise the bound tariff rate beyond a given rate. Since this concession helps reduce uncertainty on the part of all contracting parties, it is therefore in accord with the objective of promoting transparency in the world's agricultural trading system.

Developing countries are given the privilege of offering "ceiling bindings" which are set at levels above the present rates. Although inferior to "applied bindings" set at the present tariff rate levels, they are nonetheless recognized in the agreement as legitimate tariff concessions of developing countries in accordance with their special and differential treatment in the GATT.

A third measure promoting transparency is the effort to harmonize sanitary and phyto-sanitary (SPS) regulations.[6] Aimed at ensuring the health of the human, livestock, and plant populations, these are legitimate regulations of individual contracting parties and are thus allowed in the GATT. However, they can be abused by contracting parties to protect their domestic industries. The Philippines for one may become a victim of how such SPS measures can be abused in the case of carrageenan entering European Union or the United States. The agreement provides that existing SPS practices of contracting parties be based on internationally accepted procedures. Any further restriction of existing SPS measures should be based on scientific grounds. While countries may differ in practices, such practices however can be proven as technically equivalent.

Tariff Rate Quotas

The tariffication process requires the computation of the underlying tariff equivalent rates of existing non-tariff measures defined as the percentage excess of prices of locally grown farm products over the imported substitutes thereof. The suggested procedure for computing this is to compare prices if this information is available. The Philippines, however, uses a different procedure which essentially entailed doubling existing customs duties to obtain estimates of the tariff equivalent rates of the agricultural non-tariff measures or Noms due to lack of data on prices.

In order to at least maintain present market access,[7] a tariff rate quota system is put in place. Under this, contracting parties allow current or minimum access at close to applied tariff rates. Any volume in excess of this "in-quota" amount can be legally imported but subject to the higher rate deemed to be the tariff equivalent rate of the non-tariff measure that is tariffied.

Current access is defined to be no less than the average base period (1986-1988) imports. In cases where there are no "significant" base period imports, the GATT requires a minimum import access which is equal to at least three percent of base period consumption (sum of domestic production, net withdrawal of inventories/buffer stocks, and foreign supplies of the product).

The tariff rate quota system is central in understanding the tariffication of existing Noms. Through time as well as by sheer force of economic growth, the pattern of imports of the GATT member countries will progressively consist of those subject to the ordinary customs duties, provided of course that the in-quota volumes will not be reduced and the tariff rate on out-quota import volume will be gradually reduced as agreed.

Table 1. Philippine agricultural concessions in the Uruguay Round negotiation

Key item in agreement	Philippine action	Remarks
Prohibition of the use of additional non-tariff measures	Yes	Noms include discretionary import licensing, variable import levies, import quotas, and import bans
Conversion of all existing Noms to tariff protection measures	Yes, except rice	The tariffication of the rice QR is postponed for 10 years
Tariff bindings	Yes, at ceiling	A ceiling binding is set above the present rate.
Tariff reductions	Yes	Average cut is 30 percent
Reduction of GATT-inconsistent production subsidies	No	Philippine maintains less than 10 percent subsidy rate
Reduction of export subsidies	No	Philippines do not have such subsidies
Harmonize sanitary and phyto-sanitary measures	Yes	Harmonization is done on the basis of internationally accepted and scientifically supported practices; equivalency of procedures is defined

Adjustment Assistance Features

Two adjustment assistance mechanisms and measures against import surges and unfair trade are provided for in the agreement to lower the dislocation costs that the implementation of this agreement may entail. One is that a contracting party can increase the tariff rate on a farm product with presently a non-tariff measure to compensate domestic producers for the loss of the Noms if and when the agreement comes into force. The second measure provided that developing countries have ten years to implement their respective tariff rate reduction commitment in agriculture.

In addition to this, the agreement provides for a special safeguards duty aimed against import surges which may threaten a serious injury to domestic agricultural industries. In the agreement, a surge in import is defined as a volume of imports exceeding from five to twenty five percent of average importation in the immediately preceding three years (depending upon the share of imports to total consumption) plus

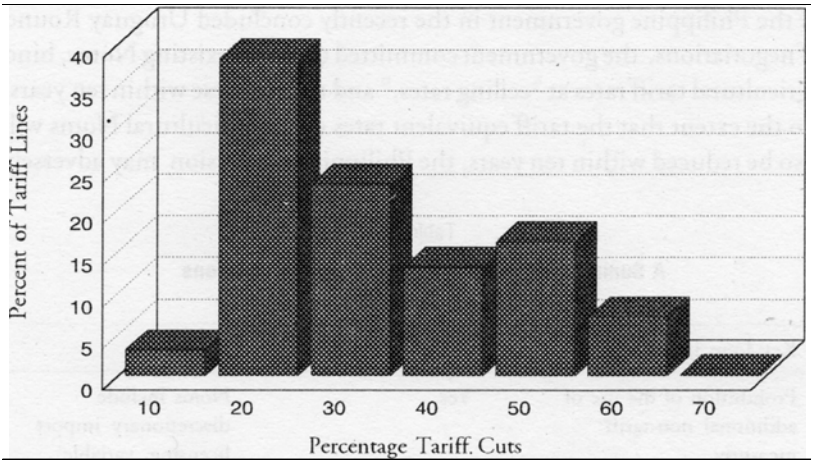

Figure 1. Percentage distribution of Philippine tariff concessions in the Uruguay Round

additional annual consumption in the most recent year where data is available. To address this problem, the contracting party can impose an additional duty (called the special safeguards duty) up to one third of the existing customs duty. This measure is only available for farm products whose Noms had been converted to tariff measures or tariffied.

Philippine Agricultural Concessions

The Philippine concession is essentially in the area of market access. As shown in Table 1 which summarizes the key agricultural concessions of the Philippine government in the recently concluded Uruguay Round of negotiations, the government committed to tariff existing Noms, bind agricultural tariff rates at "ceiling rates," and reduce these within ten years. To the extent that the tariff equivalent rates of the agricultural Noms will also be reduced within ten years, the Philippine concession may adversely affect existing sectors currently protected by quantitative import restrictions. These are rice, corn, sugar, livestock, meat products, coffee, cabbages, onions, garlic, and coffee. Figure 1 shows the percentage distribution of Philippine tariff concessions in the Uruguay Round.

With respect to rice, the government invoked annex 5 which accords a GATT contracting party the privilege to postpone for ten years the required conversion of a politically sensitive non-tariff

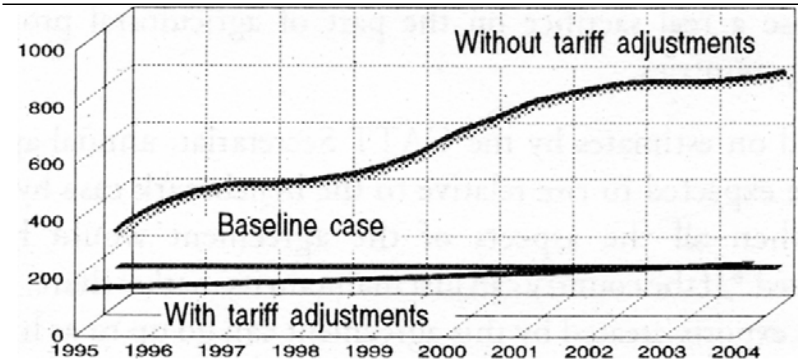

Figure 2. Philippine corn imports

measure on a food staple. There are, however, conditions attached to this privilege, two of which are worth mentioning. One condition is the guarantee of minimum import access from one percent in the first year of implementation to four percent at the end of ten years. The other condition is that an effective production restraining measure is in place. The Department of Agriculture has assigned the NFA the first right to import the minimum access in accordance with Presidential Decree No. 4 defining the charter of the agency.

As for the rest, tariff rate protection would have to be increased in order to assist these affected domestic industries smoothly to the competition. Corn is the most heavily impacted small farmer crop, being the country's second most important crop and unlike in rice will be subjected to import competition. Figure 2 illustrates however that, for as long as the adjustment assistance measures will be implemented by the government, the losses in corn will be kept down to a minimum.

Under the GATT agreement on agriculture, agricultural QRs will be converted into tariff barriers. Part of this provision is to maintain a minimum import access that will be taxed at a lower tariff rate. Any volume in excess of this minimum access volume is importable at the going higher tariff rate equivalent. Will the country be inundated by agricultural imports starting 1995 because of this provision? No, it will not be because of remaining tariff barriers and the ten-year period with which the country will deliver its tariff reduction commitments under the agreement.The figure illustrates the impact of these adjustment assistance measures for corn. In corn, the minimum access volume is 130,000 metric tons in 1995 rising to 217,000 MT in 2004 by equal annual installments. The tariff rate for thee volumes is 35 percent. According to the figure above, if there are no tariff adjustments consisting of increasing the tariff rate from the present rate of 20 percent to as much as 100 percent, corn imports will increase from the present 130,000 metric tons to close 800,000 metric tons. With tariff adjustments, only the minimum access volume appears to enter the country. The benefit to the feed/livestock complex of these policy developments is that the industry will no longer be subjected to the uncertainty of feed supply as in the recent years.

The above discussion highlights the critical argument in this paper that contrary to popular perception the government agreed to tariffy the agricultural quantitative import restrictions, and not just liberalize import restrictions. Thus, losses on the part of the key import competing agricultural industries can be kept down to a minimum as illustrated by the case of corn.

New Market for Philippine Agricultural Exports

A traditional outcome of a GATT trade negotiation is the voluntary exchange of tariff rate concessions. Under the Uruguay Round, developed countries are to cut their agricultural tariff rates by 36 percent over six years with a minimum cut by tariff line item of 15 percent. In contrast, developing countries are expected cut their agricultural tariffs by 24 percent over ten years with a minimum cut per tariff line item of ten percent. All cuts are to be applied on bound rates. Since developing countries were given the privilege to offer tariff ceiling bindings, these cuts may not amount to real concessions on their part as these do for developed countries. Except for tariff line items which may carry the tariff rate equivalent for converted QRs farm products, cuts on ceiling bindings do not pose a real sacrifice on the part of agricultural producers for developing countries.

Based on estimates by the GATT Secretariat, annual agricultural exports are expected to rise relative to the benchmark case by about 20 percent when all the aspects of the agreement would have been implemented.[8] If the country can just maintain its market share, Philippine agri-based exports created by this agreement can go up to as high as PHP11 billion pesos per year since the agri-based exports of the Philippines estimated at some USD2 billion. With agricultural imports amounting to USD1.38 billion also estimated to increase by 20 percent (consistent with constant market share assumption), the net export earnings will be PHP3.4 billion pesos. These new export earnings will imply an expansion of the gross value added of agriculture by 12 percent. About PHP60 billion pesos of agriculture-based economic activity will be added over and above the benchmark level because of these market access opportunities.

GATT-Consistent Support Measures

There are domestic support measures that are GATT consistent which the country may use in order to increase the competitiveness of Philippine agriculture as well as to ensure food security. Such measures are those which are provided through a publicly funded government program (including revenue forgone) and do not have the effect of providing price support to agricultural producers. Categories of these so-called green box measures' include general services, food security measures, and income payments to agricultural producers.

Not benefiting any specific subsector of agriculture, general services made available by the government through a publicly funded program are allowed under the GATT, provided these types of assistance are not directly paid to agricultural producers. Examples of such services include research and development (including research programs for specific products); pest and disease control programs; training services (including specialist training facilities); extension and advisory services; inspection services; marketing and promotion services (including those for specific products provided they do not directly affect prices); and infrastructure services. Measures aimed at assisting an entire rural communities, such as those for agrarian reform communities, may also be classified under this category.

Public stockholding for food security is also allowed provided food stocks are procured and released at market prices. Other conditions require that such assistance be targeted to poverty groups and that all rules pertinent to the implementation of such food security program be transparent.

A third category of "green box measures" includes direct payments to agricultural producers but which are decoupled from production. Assistance has to be provided through a publicly funded government program (including revenue forgone) not through policies which increase the prices that consumers pay for the products of such assisted producers. This condition boils down to requiring that such direct payments should not have the effect of providing price support to agricultural producers. Examples of "green box" direct payment measures include decoupled income support; income insurance and income safety-net programs; payment for relief from natural disasters; structural adjustment assistance provided through producer retirement programs; structural adjustment programs provided through resource retirement programs; structural adjustment assistance provided through investment aids; payments under environmental programs; and payments under regional assistance programs. As in food security measures, all rules and regulations pertinent to the implementation of such assistance programs must be transparent.

Concluding Remarks

This paper affirms the unique export opportunity created by this agreement for Philippine agriculture and agricultural process (or agribusiness system) comprising about half of the Philippine economy.[9] A major hindrance for agribusiness exports has been the trade protection and subsidies provided by developed countries to their respective agricultural sector. The agricultural sector has been virtually outside the GATT rules and disciplines largely because the United States, the European Union, and Japan, have protected their respective agricultural producers using policy measures which are contrary to GATT. Such departures from GATT disciplines in agriculture have reduced agricultural export earnings for developing countries in general and for the Philippines in particular as well as distorted world farm prices. The Uruguay Round Final Act has provided the world community a path out of the present mess that world agricultural trade is in.

As a necessary condition for the Philippines to seize this market opportunity created by the GATT, the policy environment should be supportive of Philippine agribusiness. For decades, the Philippine government industrialization policy has been pro-urban and anti-rural. It has shied away from an agri-industrial strategy for industrialization in favor of heavy industries. It has promoted exports with smaller net foreign exchange earnings at the expense of those with larger domestic value added. This policy has perpetrated a systematic bias against agriculture and industries which process agricultural products. Such a bias has to be corrected in favor of Philippine agriculture and agribusiness.

A stable growth of Philippine agribusiness is key to realizing and sustaining the growth objectives of the Philippine medium term development plan. In the long run, there is nothing to expect except the development of medium scale industries and ultimately heavy industries if an agri-industrial strategy for economic development is pursued. An initial stress on Philippine agribusiness is not therefore a renunciation of the long term goals of industrialization. Rather, it is the only way whereby into our common effort of increasing the per capita income of the Filipino population.

The emergence of the new GATT trade treaty is an essential catalyst for such an agri-industrial growth strategy to enable to deliver immediate and sustainable benefits. Markets are required for private investments to occur. By including agriculture, the treaty promises markets for agri-based products all over the world. Moreover, the required cuts in production and export subsidies in the developed world will increase world prices for agri-based products which is conducive for Philippine agribusiness.

A credible case of the opposition to ratification is the general perception that the government will be unable to implement the built-in defensive mechanisms against import surges and unfair trade as well as provide the infrastructure services in ten years. But the country would be confronted with the same problem even though the Uruguay Round agreement would not be implemented. To argue against ratification on this basis may be justifiable only if there would be no costs on our part to stay out of the GATT or its replacement, the World Trade Organization (WTO). But there are, and such costs are much more than the dislocation costs one can estimate if we implement the controversial tariffication of the agricultural quantitative import restrictions.

If there is any immiserization for Filipino agricultural producers, this will be in the context of rejecting the treaty rather than ratifying it. Rejecting this new GATT treaty will take the Philippines out of the WTO which implies the country's loss of its presently enjoyed most favored nation (MFN) treatment from all its trading partners. This treatment allows Filipino exporters the legal privilege in the GATT of enjoying the lowest non-discriminatory tariff barriers provided by the country's trading partners. Losing MFN treatment results in the country's non-availment of the new market access opportunities created under this Round and imperils existing market shares of the country in the presently exported commodities. First to be hit will be the highly competitive exports involving textile, garments, and high value crops. In the long run and judging from the systematic campaign launched by competitors of our coconut product exporters, loss of MFN treatment will also reduce the market share of our traditional export earners. One estimate puts these losses of export earnings at about PHP80 billion pesos, representing close to 30 percent reduction in annual export income.

Losses in agricultural and non-agricultural export income will ultimately lead to more unemployment and reduction of the purchasing power of the population which, in turn, will lower sales of the food sector. Decline in food sales will reduce the income of agricultural producers, most of whom sell to the food-producing sector. Regardless of whether they sell to the export or domestic market, agricultural producers, therefore, stand to lose more if the new GATT treaty is rejected.

Acknowledgment

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Notes

1. The Uruguay Round Final Act was signed on April 1, 1994 and is presently in the process of getting ratified by about 120 contracting governments, including the Philippines, to the General Agreement on Tariffs and Trade (GATT). The target date of the entry into force of the Final Act is January 1, 1995.
2. A good reference of these developments in agricultural trade is Hathaway, D. "Agriculture and the GATT: Rewriting the Rules." *Policy analyses in International Economics,* Institute for International Economics. (Washington D.C. 1987)
3. While being criticized by reformist countries such as the Cairns Group, the AMS-based reform process may have been essential in keeping the negotiations going when they hit an impasse over the phaseout of subsidies in 1990.
4. See example, Andrews, N., I. Roberts and S. hester. "The Uruguay Round Outcome: Implications for Agricultural and Resource Commodities," Outlook 94 (1993); UNCTAD/WIDER. Agricultural Trade Liberalization in the Uruguay Round: Implications for Developing Countries. United Nations (New York, 1990); and FAPRI, Implications of the Uruguay Round (1994).
5. An important catalyst to tariffication is the US announcement of its willingness to give up its 1955 waiver which allowed it to impose quantitative import restrictions on farm products. However, may other developed countries had problems about the proposed tariffication of QRs. The European Union had some concerns, particularly, because this move might bring their unilateral reform process with respect to the Common Agricultural Policy (which includes non-tariff measures)

beyond where their internal political process might want to allow the Union. Although the Cairns Group is the most radical among parties desirous of agricultural trade reform, one of its members, Canada, has serious concerns about the tariffication proposal. At certain periods, this concern threatened the cohesiveness of the group. Finally, Japan until the very last day of the negotiations in 1993 was not-on-board the Agricultural Agreement because of its rice import policy. Japan's concern gave rise to Annex 5 of the Agreement which allowed a contracting party to postpone tariffication provided that certain conditions are met.

6. Strictly speaking, this belongs to another part of the Agreement, which covers technical barriers to trade. However, only in food and agriculture are these measures applied.
7. In the computation of the tariff rate, equivalents, these rates may be set arbitrarily by contracting parties at high levels, which erode current market access of their respective trading partners.
8. GATT. "The Final Act of the Uruguay Round," News of the Uruguay Round, December 14, 1993 (Geneva 1993)
9. According to Hamilton and Whalley (1994), "there are positive outcomes for those developing countries involved in agriculture-related export activities such as Argentina, Brazil, Thailand, Malaysia, and the Philippines." Hamilton, C. and J. Whalley, Evaluating the Impact of the Uruguay Round Results on Developing Countries, (1994). In contrast, Fabiosa argues that "the effect of the GATT-induced policy changes will have mixed impacts on the different agricultural subsectors. However, the overall distributional effects may be adverse...With the removal of non-tariff barriers and reduction in tariff rated overtime, the Philippines may revert to being a regular rice importer. This situation will surely hurt small-scale farmers..." Obviously, Fabiosa is not fully informed about the actual concessions that the Philippine government has made. For example, rice tariffication is postponed for the next ten years. Also, Fabiosa has mistakenly thought that even irrigation support is included in the phase-down of subsidies. See Fabiosa, J. "Philippine Agriculture and GATT Reforms," GATT Research Paper 94-GATT 15. Iowa State University (March 1994).

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